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SUBJECT: VIETNAM'S EXPORTERS EXPECT TO GROW IN 2009, BUT MORE SLOWLY

REF: A) HO CHI MINH 940, B) HANOI 1206

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¶11. (SBU) SUMMARY: Most Vietnam watchers believe that the economy is largely shielded from the direct effects of global financial turmoil, but would be hurt by any significant decline in overseas consumer demand for Vietnamese exports. Orders for most "value" products like low-cost apparel remain steady or are growing, albeit more slowly than in previous years, while demand has dropped precipitously for more expensive goods like high-quality furniture. Producers of commodities like rubber and coffee have seen some export orders cancelled, pushing down the price paid to farmers. Taken together, these factors will slow growth of Vietnam's exports in coming months and motivate producers to push the Government of Vietnam (GVN) to loosen monetary policy further and/or adopt other programs to support exporters. End summary.

Export Orders, a Canary in the Coal Mine

¶12. (SBU) HCMC Economists are carefully watching exports, especially to its largest export market, the United States, to judge how Vietnam's economy will hold up next year. The US \$48.6 billion total value that Vietnam exported in 2007 is striking when compared with the country's US \$71 billion GDP. Vietnam does import a significant volume of inputs for value-added processing and re-export (e.g., hardwood imported from the United States processed into furniture exported back to the United States) creating what some HCMC economists think may act as a natural balance of payments hedge against export declines. They nevertheless expect that an export slowdown would slow Vietnam's growth, impact its current account balance and could even put pressure on Vietnam's currency.

Weaker Demand and Production Constraints Slow Export Growth

¶13. (SBU) Overall, Vietnam's export growth continues, albeit more slowly than the brisk pace set in the early months of 2008. Vietnam's total exports in the first ten months of 2008 grew to US \$53.8 billion, up 36.7 percent over the first ten months of 2007, according to Vietnam's General Statistics Office (GSO). Despite this strong performance so far in 2008, exporters are concerned that orders for early 2009 are lower than expected.

¶14. (SBU) Because the United States is Vietnam's largest export market and light manufacturing accounts for the majority of Vietnam's exports to the United States, several HCMC analysts say they consider orders for export to the United States to be a

leading indicator of Vietnam's future economic health. According to the most recent U.S. Department of Commerce data, Vietnam's exports to the United States continue to grow, up 18 percent compared to the first six months of last year. Our informal survey of economic and trade officers posted at consulates in HCMC found that investors remain optimistic about exports to the United States on the whole. For example, Taiwanese and Korean light manufacturing factories say that while furniture orders (from the US) are down 20 to 30 percent, low-end garment orders for early 2009 are "just fine". Production issues like poor infrastructure or rising labor costs are a bigger headache for FDI factories; according to one insider 110 out of 330 Taiwanese-invested garment/footwear factories in Vietnam have had strikes so far this year.

¶ 15. (SBU) The Vietnam Association of Seafood Exporters and Producers' (VASEP) Le Van Quang told EconOff that seafood exports will finish the year on target at US \$4.25 billion (up from US \$3.76 billion in 2007), but fears the 2009 GVN target of US \$5.3 billion will be difficult to reach. Quang said U.S. buyers in particular are asking to pay in installments or after they are able to sell the product, rather than at the time of shipment. Domestic factors have also restrained export growth. Frequent power cuts and overloaded warehouses, roads and ports all limit VASEP members' ability to increase exports, Quang added.

Orders for "Value" Goods Grow, Sales at the High-end Down

¶ 16. (SBU) More broadly, Vietnamese industrial organizations are seeing orders for high-end goods fall sharply, while orders for value goods continue to grow. The Vietnam Textile and Apparel Association (VITAS) expects an export turnover of US \$11.5 billion by the end of the year, up 21 percent from 2007. Vice-chairman Pham Xuan Hong told Econoff that many member companies are actively (and successfully) shifting their production from high- or mid-priced apparel products to

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low-priced product. Hong said the industry expect another 15 percent growth in exports for 2009.

¶ 17. (SBU) Nguyen Cong Quyen, the Secretary General of the Wood and Forestry Products Association of Vietnam (HAWA) told Econoff that furniture exporters are being particularly hard hit by a downturn in orders. HAWA members will export US \$3 billion in 2008, falling short of the US \$3.5 billion GVN target. The general manager of one high-end furniture company that manufactures furniture for five-star resorts and custom-ordered collections (one collection piece bookshelf sold for US \$100,000) confided that their orders have dropped to virtually zero in early 2009. While they did not have solid numbers, trade officials from Binh Duong Province, Vietnam's industrial heartland, said that low- and mid-priced furniture export orders are indeed down, but "only slightly" for early 2009. Vietnam is the largest supplier of candles imported into the United States, but one of Vietnam's largest candle exporters told EconOff that post-Christmas orders from the United States had dropped by half.

Falling Prices and Inflation Pinch Farmers

¶ 18. (U) Vietnam's agricultural sector is feeling more immediate impact from the global downturn than its manufacturing sector. Producers and exporters are reporting that local prices for rubber, coffee, pepper, rice and seafood are all trending downward and stockpiles are building as global demand for commodities drops.

¶ 19. (U) Representatives of the Vietnam Rubber Industries Group said that the local price of rubber sap has dropped almost by half, from US \$3,400 (earlier in the year) to US \$1780 per metric ton. In response, stocks of rubber has have grown by almost two thousand metric tons. The Vietnam Coffee and Cocoa association says that the local price paid for coffee has dropped by a quarter from US \$2,110 (September) to US \$1,570 (October). Pepper prices are similarly down by twenty-five

percent and rice traders have seen prices fall as well (Ref A).

¶10. (SBU) High input costs, increasing wages and ten months of tight monetary policy are further squeezing Vietnam's exporters, especially small and medium-sized enterprises without ready access to credit from state-owned commercial banks (Ref B). Increased wages and inflation on inputs hurt, several private sector managers told EconOff, but tight monetary policy hurts more because many of their state-owned competitors can get preferential loans from tight relationships with state-owned commercial banks (SOCB).

Exporters Seek GVN Action

¶11. (SBU) Industrial associations are pushing for a range of government policies that they feel will help their members, such as a looser monetary policy, directed or subsidized lending for exporters and reduced import tariffs on raw materials used to produce export products. Many managers, most privately but a few quite publicly, are calling for the GVN to ease up on its instinctive bias toward supporting state-owned enterprises (SOE). Private sector rice exporters assert that the GVN should liberalize that industry so they can compete more effectively with SOEs (Ref A).

Comment:

¶12. (SBU) In addition to slowing economies in their major markets, Vietnamese exporters will also face a headwind from the strengthening U.S. dollar, to which the Vietnamese dong is linked. While there are undoubtedly tough times ahead for many Vietnamese exporters, those companies with a competitive advantage and inelastic demand (e.g., low-cost garments) are set to grow. Vietnam's tight domestic credit environment and persistent inflation, and global financial turmoil mean that only the best privately owned Vietnamese companies will be able to borrow the money they need to expand. End comment.

¶13. (U) This cable was coordinated with Embassy Hanoi and the regional Financial Attaché in Singapore.

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